

ORDER NO. 1456

UNITED STATES OF AMERICA  
POSTAL REGULATORY COMMISSION  
WASHINGTON, DC 20268-0001

Before Commissioners:

Ruth Y. Goldway, Chairman;  
Nanci E. Langley, Vice Chairman;  
Mark Acton;  
Tony Hammond; and  
Robert G. Taub

Competitive Product Prices  
Inbound International Expedited Services 2  
(MC2009-10)

Docket No. CP2012-52

ORDER APPROVING RATE CHANGES  
FOR INBOUND INTERNATIONAL EXPEDITED SERVICES 2

(Issued August 30, 2012)

I. INTRODUCTION

The Postal Service proposes a change in rates not of general applicability for Inbound International Expedited Services 2.<sup>1</sup> For the reasons discussed below, the Commission approves the Postal Service's proposal.

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<sup>1</sup> Notice of the United States Postal Service of Filing Changes in Rates Not of General Applicability and Application for Non-Public Treatment of Materials Filed Under Seal, August 13, 2012 (Notice). The filing does not include any proposed classification changes. Notice at 3.

## II. BACKGROUND

*Product status.* Inbound International Expedited Services 2 is a competitive product for inbound Express Mail International (Inbound EMS) from foreign posts for delivery in the Postal Service's domestic delivery area. It was added to the competitive product list in 2008.<sup>2</sup> Prices reflect a formula set by the Governors of the Postal Service pursuant to EMS Cooperative procedures under the Universal Postal Union (UPU).<sup>3</sup>

*Instant filing.* Since the introduction of Inbound EMS, the Postal Service has filed several annual notices of rate changes. The most recent annual notice was filed August 13, 2012, for rate changes effective January 1, 2013. The timing of the filing facilitates Postal Service compliance with an EMS Cooperative requirement that rates for this product are to be communicated to the UPU by August 31 of the calendar year before they are to take effect.

Attachments to the Notice provide supporting material in the form of redacted versions of calendar year (CY) 2013 rates; the controlling Governors' Decision; and a certified statement addressing the filing's compliance with statutory and regulatory requirements. An accompanying application for non-public treatment seeks confidential treatment for unredacted versions of this material. *Id.* Attachment 1.

*Commission action.* In Order No. 1436, the Commission provided notice of the Postal Service's filing; requested supplemental information on recent EMS Cooperative report cards; appointed a Public Representative; and provided the public with an opportunity to comment.<sup>4</sup> On August 22, 2011, the Postal Service filed the requested

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<sup>2</sup> See Docket Nos. MC2009-10 and CP2009-12 and Governors' Decision No. 08-20 (establishing the classification). Subsequent Governors' Decision No.11-6 serves as the basis for the rates in this filing.

<sup>3</sup> The EMS Cooperative is a voluntary group established in 1998 by the Universal Postal Union's (UPU's) Postal Operations Council. The Postal Service is a member of the EMS Cooperative.

<sup>4</sup> Notice and Order on Changes in Rates Not of General Applicability, August 16, 2012 (Order No. 1436).

supplemental information.<sup>5</sup> The Public Representative filed comments on August 27, 2012.<sup>6</sup> No other comments were received.

### III. SUMMARY OF PUBLIC REPRESENTATIVE'S COMMENTS

The Public Representative's review of the Postal Service's filing leads him to conclude that the underlying financial model purports to show that revenues will exceed costs. However, he finds the model may not provide a realistic projection of future financial performance and that proposed CY 2013 rates for inbound EMS are unlikely to generate sufficient revenues to cover costs. PR Comments at 2. He recommends that the Commission condition approval of the rates on the production of certain data and explanations. *Id.* at 8.

In support of his recommendation, the Public Representative asserts that the current model incorporates two changes that depart significantly from all previous financial models for Inbound EMS. One is the use of what he characterizes as "revised" Inbound EMS volumes obtained from the Foreign Post Settlement (FPS) system in lieu of the Inbound EMS volumes presented in the FY 2011 International Cost and Revenue Analysis (ICRA) report. The other is elimination of a revenue adjustment for the percentage of delivery scans missed pursuant to the EMS Pay-for-Performance plan. *Id.* Both of these changes have the effect of reducing the anticipated cost coverage of Inbound EMS.

The Public Representative further notes that the Commission's FY2011 Annual Compliance Determination (2011 ACD) found that FY 2011 was the second year in which revenues for Inbound International EMS did not cover attributable costs under either the booked or imputed accounting methods. *Id.* at 2-3. He concludes that the Postal Service did not comply with the Commission's 2011 ACD directive to take corrective action, via separate bilateral agreements that would generate a positive cost

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<sup>5</sup> Response of the United States Postal Service to Order No. 1436, August 22, 2012.

<sup>6</sup> Public Representative Comments on Postal Service Notice of Filing Changes in Rates Not of General Applicability for Inbound International Expedited Services 2, August 27, 2012 (PR Comments).

coverage or by increasing the cost contingency factor used for setting Inbound EMS rates. *Id.* at 3. The Public Representative further concludes that the CY 2010 and CY 2011 Inbound EMS models underestimated costs and overestimated revenues. Moreover, he maintains that applying a higher contingency factor to the CY 2013 model results in projected costs exceeding revenues. *Id.* at 6.

The Public Representative suggests that the Commission condition its approval of the proposed EMS rates for CY 2013 on the Postal Service's production of the revised FY 2011 FPS volumes, along with reconciliations with unrevised and ICRA volumes. *Id.* The Public Representative also suggests that the Postal Service identify and explain the anticipated future initiatives used to justify the Postal Service's elimination of the contingency factor, as well as quantify the expected cost savings from these initiatives and provide a schedule of their intended implementation. Finally, the Public Representative requests that the Postal Service provide a CY 2013 financial model using the Inbound EMS volume and costs using the same methodologies from the CY 2012 model. *Id.* at 8.

#### IV. COMMISSION ANALYSIS

The Commission has reviewed the Notice, the supplemental information, and the Public Representative comments in terms of the standard of review.

*Statutory and regulatory requirements.* Planned price changes for competitive products are reviewed pursuant to three subsections of 39 U.S.C. 3633(a) and Commission regulations under 39 CFR 3015, which implements section 3633.

As filed, the Notice demonstrates compliance with statutory criteria intended to insure that competitive products are not cross-subsidized by market dominant products, cover costs, make a contribution to overhead. See 39 U.S.C. 3633(a) through (c). Thus, the proposed rates comport with the provisions applicable to rates for competitive products.

The Public Representative identifies that the Postal Service's approach to financial modeling in this case differs from the baseline model. These differences, the

elimination of the cost contingency and the use of revised FPS volumes, raise concerns about cost coverage. Compounding this is the limited period for Commission review.

While the Commission approves the proposed rates, the Postal Service shall file, within 30 days of this Order, the revised FPS data used in the model and a reconciliation of these data with the unrevised FPS data and with ICRA data.

The Commission further observes that the elimination of a cost contingency factor (as opposed to increasing it, as suggested by the Commission in the 2011 ACD) and of a revenue adjustment for missing scans reflects departures from established methodology that are minimally explained. In future filings the Postal Service must present changes of this nature in the body of the Notice and more fully explain them, rather than identify them in a spreadsheet footnote. Support for assumptions about the beneficial impact of anticipated cost savings initiatives should also be explained in detail if the Commission is to accept such assumptions for purposes of assessing compliance.

*Other considerations.* The Postal Service is directed to provide the Commission with the 2013 EMS Pay-for-Performance Plan within 30 days of its adoption by the EMS Cooperative of the UPU.

## V. ORDERING PARAGRAPHS

*It is ordered:*

1. The proposed rates for Inbound International Expedited Services 2 scheduled to take effect January 1, 2013 are in accordance with the relevant statutory and regulatory requirements of 39 U.S.C. 3633(a) and 39 CFR 3015.7.
2. The Postal Service is to provide the Commission with unrevised and revised FPS data and a reconciliation with FY 2011 ICRA data within 30 days of the issuance of this Order.

3. The Postal Service is directed to provide the Commission with the 2013 EMS Pay-for-Performance Plan within 30 days of its adoption by the EMS Cooperative of the Universal Postal Union.

By the Commission.

Shoshana M. Grove  
Secretary